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Washington Watch

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Fed's Concern About Rates

WASHINGTON

THE latest decline in the money supply, a \$2.2 billion drop in the basic measurement M1-B reported Friday, appears to be taking some heat off the Federal Reserve Board.

The immediate market reaction was a decline in both short-term and long-term interest rates — news that was enthusiastically received by the Treasury.

But Federal Reserve officials are still concerned that rates may not fall far enough to prevent severe economic strains. Housing, automobiles, thrift institutions and small business are among the problem sectors. "Bankruptcies will doubtless rise," warns one member of the board, adding, "You can already see some of the fissures."

The Fed's chairman, Paul A. Volcker, told President Reagan at a well-publicized meeting last Monday that the Fed intended to bring short-term money growth back in line with its targets after the 14 percent annual rate of increase in April. But he cautioned that the economy would pay the cost.

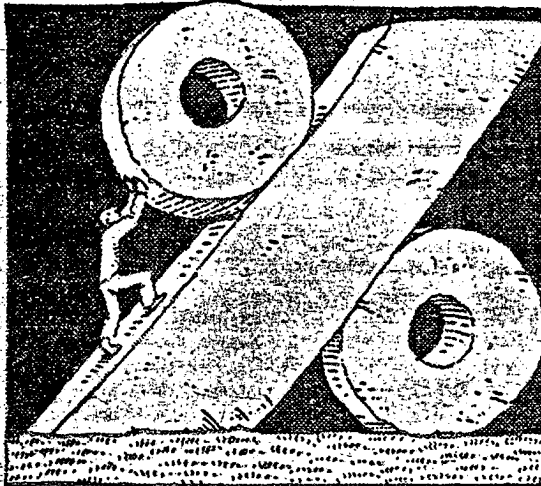
One worry of the Fed is a forecast that the savings and loan industry could lose more than \$8 billion this year, or roughly 15 percent of total capital. Should the earnings crisis precipitate withdrawals of deposits, a liquidity crisis could result.

Bank and thrift regulators — including the Federal Reserve Board, the Federal Home Loan Bank Board and the Federal Deposit Insurance Corporation — are circulating another draft of their "safety net" bill on Capitol Hill.

But the thrift industry still thinks the measure does not go far enough in providing an emergency capital infusion. Another controversial provision would permit some interstate mergers.

At his meeting with the President, Mr. Volcker was promised that Beryl W. Sprinkel, Under Secretary of the Treasury, would stop his public denunciations of Fed policies. But Mr. Sprinkel's monetarist mentor, Milton Friedman, in town to support the National Tax Limitation Committee's efforts to get a constitutional amendment to limit Federal spending, spoke out against the Fed last week.

Mr. Friedman ticked off Fed procedures he would like changed. Among other things, he suggested that the Fed eliminate lagged reserve requirements, by



Robert Neubecker

which reserves are calculated as deposits in banks two weeks before the current statement week.

A Fed spokesman said the central bank had already considered moving to a "contemporaneous" basis. He added tartly, "The world does not turn on contemporaneous reserve accounting."

U. S. Productivity

From Houston the four-year-old American Productivity Center has just aimed this message at Washington: "While there is political rhetoric to 'do something' (about lagging productivity growth), little is being done on a national basis besides efforts to stimulate investment. And while that is important, it is not sufficient."

The nonprofit privately funded organization, which aims to improve productivity in business and government, said in its annual report that the problem is less a lack of knowledge about specific productivity techniques than a commitment by business, labor and government to make them work.

The American Productivity Center has a staff of 90 and an annual budget of \$7.5 million. A similar organization in Japan has a staff of 600 and a budget of \$25 million. West Germany has a productivity center known by the initials R.K.W. with a staff of 350 and a budget of \$20 million.

"Remember," says C. Jackson Grayson Jr., chairman of the center in Houston, "for many years we led the world in productivity growth, and we still lead the world in productivity levels. We can keep the lead. But we better get to it."

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